

**MINUTES OF THE
JOINT CAPITAL FACILITIES & ADMINISTRATIVE SERVICES
APPROPRIATIONS SUBCOMMITTEE
MONDAY, FEBRUARY 2, 2004, 2:00 P.M.
Room 403, State Capitol Building**

Members Present: Sen. Beverly Evans, Committee Co-Chair
Rep. Loraine T. Pace, Committee Co-Chair
Sen. Greg Bell
Sen. Mike Dmitrich
Rep. Roger Barrus
Rep. Ralph Becker
Rep. DeMar “Bud” Bowman
Rep. D. Gregg Buxton
Rep. David Clark
Rep. Stephen Clark
Rep. Brent H. Goodfellow

Members Absent: Rep. Wayne Harper

Staff Present: Kevin Walthers, Fiscal Analyst
Bonnie Brinton, Committee Secretary

List of those also present: Ed Alter, State Treasurer
David H. Hart, Executive Director, Capitol Preservation Board
Mark Spencer, Associate Commissioner, Utah State Higher
Education

A list of visitors and a copy of handouts are filed with the committee minutes.

Co-Chair Evans called the meeting to order at 2:10 p.m.

1. Debt Service

a. Analyst Presentation

Kevin Walthers, Fiscal Analyst, discussed the Debt Service budget. Debt service is made up of interest and principal due on the State's bonded indebtedness. Dedicated revenue streams such as enterprise fund revenue or dedicated lease payments secure some bond. Debt service on Revenue Bonds and General Obligation Bonds are included in this appropriation.

The doubling of dedicated credits reflects a \$31,590,000 payment made by the Salt Lake

Organizing Committee to the University of Utah to complete payment on the Olympic housing project.

Mr. Walthers explained that debt service for FY 2005 will increase by nearly \$4.9 million. Of this amount, \$921,000 is to pay the final installment on a bond that had been carried in the Department of Corrections budget. The Analyst recommends that the CFAS Subcommittee recommend to the Executive Appropriations Committee funding of this item in the amount of \$4,887,900 as the Subcommittee's top priority.

The Analyst discussed the General Obligation Highway Bonds. Debt service in FY 2005 will require an increase of Centennial Highway Fund to pay the additional \$29.8 million due in the coming year.

b) State Treasurer Ed Alter

Mr. Alter responded to questions from the Subcommittee members. He discussed how the money is taken from the General Fund in four ways: tax reductions, highway bonds and transportation, and debt service on bonds. He stated that in his opinion, the General Fund is not adequate at this time to continue as the primary source of debt service.

The Treasurer informed the Subcommittee that Utah is moderately high in the AAA rating. He stated that the State could possibly enact \$150 to \$200 million of new net debt and still retain the AAA debt rating. However, he does not recommend getting this close to the limit.

The Analyst stated that Utah is one of seven states with a "Triple AAA" Bond Rating. In assessing ratings, agencies look to a state's economy, flexibility in finances, debt burden and management. He also stated that it is most important for the State to have a plan to pay debt service and that it sticks to its plan.

Mr. Walthers referred to the table on page 7 entitled "Debt Service as a Percentage of Expenditure." He suggested the Subcommittee might address the structure of Debt Service. Utah has long been known as a very conservative state when it comes to bonding--but debt service is projected to exceed 5% of General Fund expenditures in FY 2005.

Rep. Becker asked the Analyst if information is available which would show what the tax base from 1995 would be without reductions and bond service. Mr. Walthers said he would address that request during the interim.

The Analyst directed attention to the table on page 5 which demonstrated General Obligation Debt Service distribution. He stated that over the past seven years the bulk of debt service has shifted from buildings to transportation. Transportation will account for 62% of the Debt Service and Education will account for 27% in FY 2005.

Mr. Walthers referred to the section on Bonding Limitations. He explained that the general obligation debt is issued and managed under the authority of the Board of Bonding Commissioners, which consists of the Governor, the Treasurer, and a member of a political party different from that of the Governor. He discussed the Constitutional debt limit which caps total general obligation debt at 1.5% of total fair market value of taxable property. Secondly, Statutory debt limit is limited to general obligation debt to 20% of the allowable spending limit from the General Fund, Uniform School Fund, and Transportation Fund, less debt service.

In summary, for FY 2004, the statutory general obligation debt limit is \$856.4 million. Transportation bonds of \$984 million are exempted from the statutory limitation, leaving \$612.4 million to apply to the limit. Combined with \$28.6 million of unissued (but authorized) bonds, the State has approximately \$215.4 million in additional bonding capacity.

Regarding projected debt service, the Analyst stated that current projections show annual transportation debt service increasing to over \$190 million before the Centennial Highway Fund is fully paid off. Although cash funding for capital projects carried some opportunity cost, the Analyst stated his belief that it is better to put money into job-creating construction rather than interest payments.

Mr. Walthers explained that the Legislature initiated a PAYGo "pay as you go" plan in FY 2000 that became a source of funding for state government during the downturn. The Capital Budget provided a sort of secondary rainy-day fund that relieved \$233 million to the FY 2002-2003 shortfall. The Analyst stated his belief that this was wise budgeting on the part of the Legislature, and he recommends that future sources of one-time funds be applied to capital projects to restart the PAYGo plan. This plan provides long-term flexibility in budgeting.

Rep. Pace discussed the issue of Revenue Bonds. In some cases, agencies may pledge ongoing lease funding to debt service. This type of financing is referred to as "lease revenue" financing and is not a true revenue bond. Leases should not be considered a source of revenue except by the State Building Ownership Authority.

The Analyst stated that although no single policy or decision (within the realm of reason)

will change the strength of Utah's rating, he does note that several bond-rating factors should be considered in preparing the FT 2005 budget: structural balance, planning, and balancing growth vs. infrastructure.

Mr. Alter concluded his remarks by commending Mr. Walthers on his excellent work in analyzing and presenting information to the Subcommittee and the public.

Rep. Becker expressed appreciation to Mr. Alter for the information he brought to the Subcommittee.

MOTION: Rep. Buxton moved to accept the Analyst's recommended budget for Debt Service in the amount of \$264,441,000.

The motion passed unanimously with Rep. D. Clark absent at the time of voting.

Mark Spencer, Associate Commissioner, USHE, responded to questions from Subcommittee members.

2. Capitol Preservation Board

a) Analyst Presentation

Mr. Walthers described the construction of the expansion buildings as the best value for the State. He stated that the most inexpensive means to obtain space during the restoration called for all employees and the Legislature to be moved to leased space in Salt Lake City at a cost that ranged from \$27 million to \$36 million. The Legislature chose instead to add the two new buildings for an incremental cost of between \$4 million and \$14 million. In effect, the State is gaining \$40 million of value for approximately a quarter of that amount.

The Analyst further stated that as the expansion space nears completion, the Board is moving forward with planning and design for the new heat plant and the total restoration of the building. Over the past year testing revealed more asbestos than expected, weaker than anticipated concrete in the dome and interior elements (i.e. rosettes, railings, and balustrades) that are not properly held in place.

As part of the Capitol Restoration project, the Analyst recommends that the Capitol Preservation Board be allowed to use carry-forward funds to offset costs associated with the project. He also recommended intent language to that effect.

Regarding FY 2004 estimated current expenses, the maintenance and operating expenses are listed as \$2,361,600, which is below the authorized rate of \$2,400,000. These expenses are managed by DFCM.

David Hart, Executive Director, Capitol Preservation Board, stated that the Capitol will be closed next year. There will be a loss of \$52,500 from rental of the rotunda. There will be some income from the rental of the plaza. He also reported that even though the Capitol will be closed, there will be some heating and cooling costs associated with the remodel. The maintenance and operating expenses in the two new buildings will cost approximately \$56,900. DFCM will manage these expenses and will need a rate increase or supplemental funding to cover these costs.

Rep. Becker noted that bonds for the Capitol are paying on-going expenses. Mr. Walthers and Rep. Becker will draft intent language to reflect this funding to present to the Subcommittee in the next meeting.

Mr. Hart reported that the DUP building will have a new boiler installed this summer and that there will be modifications to the Travel Council building. These expenses are included in the existing budget.

MOTION: Rep. S. Clark moved to approve the Analyst's recommendation for the Capitol Preservation Board in the amount of \$2,535,100.

The motion passed unanimously.

MOTION: Rep. Goodfellow moved to approve the following intent language:

It is the intent of the Legislature that funds for the Capitol Preservation Board shall not lapse and that those funds shall be used for the design and construction costs associated with Capitol restoration.

The motion passed unanimously.

Director Hart gave a presentation showing a master plan update on the Capitol remodel. He suggested deferring building the new heating plant for one year. This would reduce the overall need for funding to \$56 million for FY 2005. He has requested \$50 million for the next three years and \$35 million for the fourth year, totaling \$185 million.

In response to a question from the Subcommittee, Mr. Hart stated that Risk Management provides insurance during the construction and that it is funded from the project budget.

Rep. Buxton asked if the Director felt it would be possible to get donations from private citizens since this is the "People's Building." Mr. Hart responded by saying in his research he has found that people are not interested in restoring buildings and feel that the government should do that. They may be interested, however, in restoring historical items and furnishings, and he will pursue that source of funding in the future.

Co-Chair Evans commended Mr. Hart and his staff for their excellent work in bringing down the costs of this remodeling project.

MOTION: Sen. Bell moved to adjourn the meeting.

The motion passed with Sen. Dmitrich and Reps. Barrus and S. Clark absent at the time of voting.

The meeting was adjourned at 4:00 p.m. by Co-Chair Evans.

The minutes were reported by Bonnie Brinton

Sen. Beverly Evans
Committee Co-Chair

Rep. Loraine T. Pace
Committee Co-Chair